Schedule Of Findings

1. Island County Officials Should Comply With The Growth Management Act And Spend Tax Revenue In Accordance With Statutes

Island County officials expended $368,093 of real estate excise tax (REET) revenue during 1995 without proper legal authority. With limited exceptions, REET revenue is restricted to use for capital projects included in the capital facilities element of the comprehensive plan under the Growth Management Act (GMA). Under this act, county officials were required to adopt the GMA comprehensive plan on or before July 1, 1994. County officials have adopted a capital facilities plan element intended to be a part of the GMA comprehensive plan. However, the GMA comprehensive plan has not been adopted. As a result, we are questioning the $368,093 in capital expenditures and qualifying our opinion on the county's financial statements.

RCW 36.70A.040(3)(d) states in part:

> . . . if the county has a population of fifty thousand or more, the county . . . shall adopt a comprehensive plan . . . on or before July 1, 1994 . . . .

Island County collects REET under two statutes with separate restrictions on the use of the funds. Each of the statutes provides authority to impose an excise tax on the sale of real property at a rate not exceeding one-quarter of one percent of the selling price.

RCW 82.46.010(2) and RCW 82.46.35(3) regulate the use of the revenues collected under the statutes and they each state in part:

> . . . (Revenues) generated from the tax . . . shall be used . . . solely for financing capital projects specified in a capital facilities plan element of a comprehensive plan . . . .

Officials have not adopted a GMA comprehensive plan due to unresolved issues pertaining to residential zoning density. Officials continued to expend REET funds for capital projects because they thought it was not necessary to have an adopted GMA comprehensive plan as long as they complied with the requirement to have the capital facilities plan element.

<u>We recommend</u> county officials adopt a comprehensive plan with a capital facilities plan element as required by the Growth Management Act. <u>We also recommend</u> officials return $368,093 to the real estate excise tax funds.

Auditee's Response

This finding concerns the requirements as set forth in the Growth Management Act of 1990, which included amendments to the Real Estate Excise Tax statutes restricting the collection and use of these funds to projects specified in a capital facilities element of a comprehensive plan. As alleged by the State Auditor, Island County officials ". . . continued to expend REET funds for capital projects because they thought it was not necessary to have an adopted GMA comprehensive plan as long as they complied with the requirement to have the capital facilities plan element."

The State Examiner's proposed finding number one is based upon a mistaken interpretation of the state statutes authorizing the collection and expenditure of real estate excise taxes (RCW 82.46.010 and RCW 82.46.035).

In the Growth Management Act of 1990 (GMA), four years before the deadline for the completion of comprehensive plans, the state legislature authorized Island County to collect and use the two real estate excise taxes for capital projects specified in a capital facilities element of a comprehensive plan. Island County first adopted a Growth Management Act Capital Facilities Plan in 1992 along with a six-year capital improvement program. Since that time, except for revenues pledged or committed to debt retirement or prior capital projects, all revenues have been expended in accordance with the capital facilities program under the Growth Management Act.

The County has adopted two of the six elements of the Growth Management Act, the Capital Facilities Plan element and the Transportation Plan element. The county has been and continues to work toward adoption of the other four elements of the comprehensive plan. The County anticipates adopting a Comprehensive Plan in 1997, which would moot this finding. Although the deadline for adoption of all elements of the Growth Management Act passed in July 1994, the county, like the vast majority of Washington counties, was unable to complete all its work by that date.

The State Auditor misconstrues the two real estate excise statutes by concluding that if all elements of the county's GMA comprehensive plan were not adopted on time then expenditures under a currently valid and existing GMA Capital Facilities Plan element of the comprehensive plan must cease. The State Examiner reads RCW 82.46.010(2) and RCW 82.46.035(3) to state "Revenues generated from the tax . . . shall be used solely for financing capital project as specified in a capital facilities plan element of a ***completed*** *comprehensive plan." (word "completed" added to actual statutory language). The statute does not say that and cannot be reasonably construed to mean that.*

Island County's expenditure of real estate excise tax revenues in accordance with the Growth Management Act Capital Facilities Plan element of the county's comprehensive plan is appropriate and should not be the subject of a State Auditor's finding.

2. County Officials Should Improve Controls Over Cash Receipts

Our audit reports for 1994 and 1993 disclosed weaknesses in the county's internal controls over cash receipts. The internal control weaknesses reduce the accountability over departmental cash receipts, and could expose the county to the risk of errors and/or irregularities occurring without being detected in a timely manner. County officials resolved several of the conditions noted in our prior reports, but the following weaknesses remain:

a. District Court:

(1) All of the court clerks have access to one cash register drawer. As a result, responsibility for funds is not fixed to a specific individual at all times.

We recommend the board of commissioners provide one change fund and one cash register drawer per clerk to fix responsibility for funds to specific individuals at all times.

(2) Four court clerks have access to a safe used for change funds and for amounts receipted subsequent to daily balancing.

We recommend limiting access to funds in the safe to fix responsibility for funds to specific individuals at all times.

(3) Only one clerk opens mail which includes payments. A listing of payments is not prepared as mail is opened. The clerk also has other responsibilities relating to cash.

We recommend either two people open mail with one running an adding machine tape and the other preparing receipts, or responsibility for opening mail and listing remittances be assigned to an individual with no responsibility for or access to files or documents pertaining to accounts receivable or cash accounts.

b. District Court Probation Office:

(1) Payments are receipted on generic prenumbered cash receipt forms rather than official prenumbered cash receipt forms with the county's name printed on them. Generic cash receipts provide little control over revenue because duplicate numbering sequences can easily be obtained at many retail stores.

We recommend the probation office use official Island County receipt forms for its cash receipting transactions.

(2) Receipts are not deposited intact. Office personnel pay for certain services directly out of cash receipts.

We recommend receipts be deposited intact and that payments for goods or services be paid by warrant.

(3) The bank account for restitution has an unidentified balance from prior years.

We recommend that all unidentified moneys be remitted to the county treasurer as unidentified receipts.

(4) Only one clerk opens mail which includes payments.

We recommend two people open mail with one running an adding machine tape and the other preparing receipts.

c. Superior Court:

(1) The county clerk prepares and makes the bank deposits, disburses checks, and reconciles the bank statement.

We recommend the bank reconciliation be performed by a disinterested party not having signature authority on the account.

(2) Duplicate bank validated deposit slips showing the composition of receipts are not consistently attached to the original deposit slips.

We recommend a duplicate validated deposit slip be stapled to the original deposit slip.

RCW 43.09.200 states in part:

> . . . The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amount due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction . . . .

We recommend county officials establish and maintain strong internal accounting and administrative controls over cash receipts.

Auditee's Response

Regarding District Court: In order to improve cash control, it is agreed that separate change funds and drawers for each clerk shall be created in order to reduce the multiple access of funds and drawers which is the case now. As for limiting access to the safe, it is difficult to reduce the number of clerks with access to the safe because employees are often gone or sick. This finding is understandable, but difficult to comply with under the circumstances. Perhaps the newly appointed District Court judge can help rectify this conundrum.

Regarding the mail, it is agreed that the process of opening mail needs better control; the person opening the mail should run a tape and record the transactions if any, but this person should not be the person who has access to the system controls in order to ensure that cash is recorded properly as cash and not substituted for community service or other non-cash receipt. We will work with the Court to ensure this process is amended to assure proper controls.

Regarding the District Court Probation Office: This office was specifically told to use official cash receipt forms, but simply failed to follow through. We are assured that the practice has already been amended to follow the recommendation; the Treasurer is issuing this office the pre-numbered receipt forms. The audit also disclosed the absurd practice of paying for goods or services out of receipts, a violation of county policy. We are assured this practice is no longer being done. A small change fund ought to be created for occasional small purchase needs, or they could utilize District Court petty cash as an alternative. As for the unidentified funds under the Probation Office control, it is agreed that where funds are unidentified that they be remitted to the Treasurer for payment to the State per RCW 76.68.280. Regarding the opening of the mail, because only 2% of their receipts are received this way, the problem of only one person opening the mail is not material. However, where possible, it is agreed that two people open the mail whenever it is physically possible to do so. Perhaps the best solution is for the functions of cash receipting and control to be incorporated into the general functions of the District Court system.

Regarding Superior Court Clerk: The recommendations made by the State Auditor are proper and logical. The County Clerk does not wish to change the process of bank reconciliation because she believes she is short of personnel and therefore it is practically impossible to alter the process in her office. The recommendation of stapling duplicate validated deposit slips is a relatively easy change to incorporate to ensure better control and will be done.

With all of the above recommendations, it is the intent of Island County to make whatever improvements it takes to ensure stricter controls over its cash receipting operations.

3. County Officials Should Improve Accounting Controls For General Fixed Assets

Our audit reports for 1991 through 1994 contained findings relating to weaknesses in the county's fixed assets accounting system. While some of these issues have been corrected by county management, accounting control should be improved for the inventory of general fixed assets.

RCW 36.32.210 was amended during 1995 to require the board of commissioners to file a full and complete inventory of all capitalized assets with the county auditor by the first Monday of each year. The inventory filed for 1995 listed equipment in compliance with the superseded statute; however, it did not include the county's land, buildings or improvements other than buildings. County officials have not prepared a detailed listing of historical cost data for buildings or other improvements included in the general fixed assets account group.

The inadequate fixed asset accounting is partially attributed to insufficient resources assigned to this area by county officials. County officials also are having a difficult time researching older data and obtaining the required information.

As a result of the above conditions, we were unable to apply audit procedures to substantiate the fair presentation of the general fixed asset's buildings and other improvements reported in the county's financial statements.

We recommend that the county officials:

a. Establish and maintain a comprehensive fixed asset detail ledger for buildings and other improvements. The listing should document each assets acquisition information including date, cost and reference to source document, and disposition information.

b. File a full and complete inventory of all capitalized assets with the county auditor in compliance with the requirements of RCW 36.32.210, as amended.